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SME Finance Monitor

Q4 2024 Report Highlights

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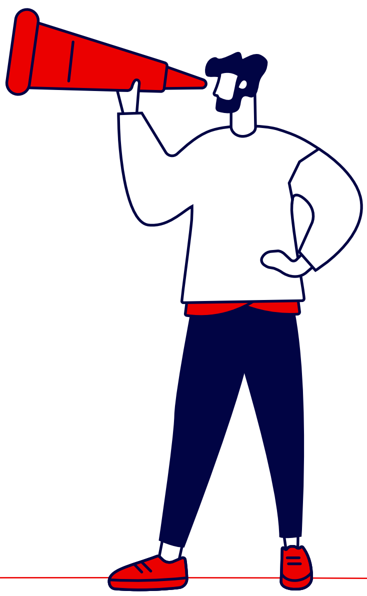


Navigating the SME Finance Monitor

The Chapter Summaries ...

The 2024 SME Finance Monitor report provides an in-depth assessment of SMEs as they emerge from the pandemic years to take advantage of new opportunities but also to face challenges from both the economy and the impact of world events.

There are a number of ways you can access this information, depending on the data you need and the level of detail required. They can all be found at www.bva-bdrc.com/sme-finance-monitor/

1. The **management summary** provides the key headlines on important contextual issues such as innovation and growth as well as on the focus of this report: the use of, and access to, external finance by SMEs.
2. More detailed headlines, also in a summary format, can be found in the chapter summaries at the start of each chapter of the full report. These summaries have been gathered together into a separate **chapter summaries** document you are reading now.
3. The **full report** (which includes the management summary and chapter summaries) provides a series of chapters on different themes and full data, over time and by a range of business demographics, to give a full picture across the topics covered
4. There is an accompanying **chart pack** covering the key themes reported here, with reporting by size and sector.

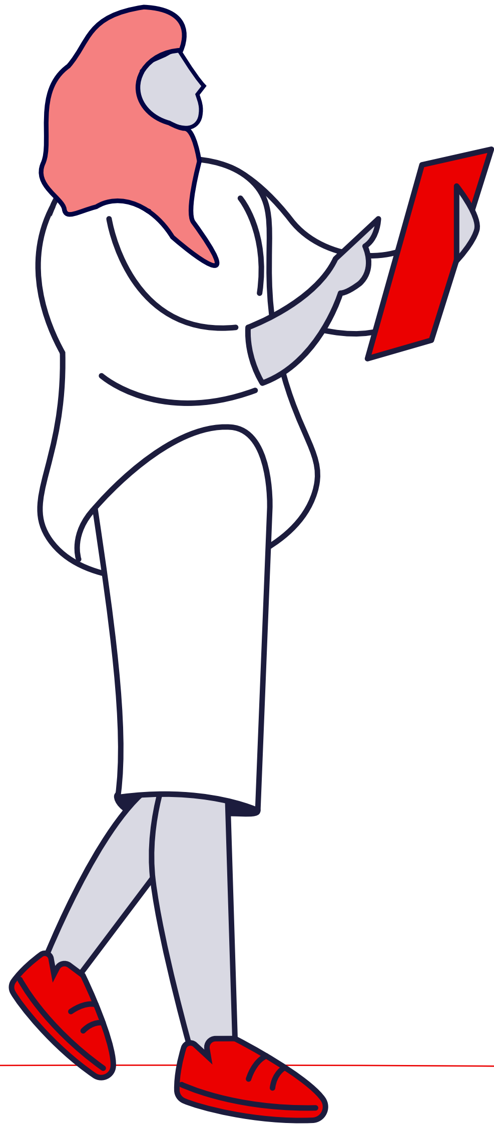
Whilst the position of SMEs on a range of metrics remains stable 2023 to 2024, there are positive signs of increased innovation and 4 in 10 SMEs identifying as either an Ambitious Risk Taker or an Ambitious Innovator. Higher costs and the current economic climate remain barriers, and are having some impact on appetite for finance, with 1 in 5 SMEs happy to borrow to grow but feeling they might find it difficult to get finance.

4 in 10

SMEs identified as either an 'Ambitious Risk Taker' or an 'Ambitious Innovator'

Application success rates remain lower than previously seen, with the change over time more marked for applicants with 0 or 1-9 employees, or those applying for a loan.

This report helps to explain the reasons behind these overall sentiments, remembering that SMEs are a diverse group, especially by size but also by age, sector and ambition and it is rare that all will share a view or experience to the same extent as their peers. Understanding these differences is key to understanding this important part of the economy and how they should be supported.



4. The general context

THIS CHAPTER PRESENTS

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year ending Q4 2024 (YEQ4 24).

4. The general context

KEY FINDINGS

Levels of profitability in 2024 were in line with those seen in 2023.

- In 2024, as in 2023, 77% of SMEs (excl DK answers) reported making a profit in the previous 12 months, unchanged from 2023 and increasing by size of SME from 76% of those with 0 employees to 92% of those with 50-249 employees.
- This means that profitability has improved post-pandemic (in 2021, 65% reported making a profit), and is almost back to levels seen pre-pandemic (78% reported a profit in 2018). However, the increase in reported profitability seen between 2021 and 2022 (+8 points) and 2022 and 2023 (+4 points) has not been maintained in 2024.
- The only SMEs who bucked the trend and reported improved profitability in 2024 were those in Construction (up from 80% to 83%) and Health (up from 78% to 82%), and those with 2-5 years of trading (+3 to 73%). Aside from those few examples, profitability is stagnant or has declined.
- Overall, 4 in 10 SMEs in H2 2024 said that improving profit margins was a key priority, the same as in H2 2023 and still far lower than the 58% of SMEs that saw it as a priority in 2021. This masks some differences by size – while 0 employee SMEs were unchanged, 1-9 and 10-49 employee SMEs were more likely to say that improving profit margin was a priority in H2 2024 than H2 2023.

A stable 3 in 10 SMEs (excluding Starts) in 2024 reported having grown, comparable to 2023 and not yet back to pre-pandemic levels. Meanwhile, 1 in 3 reported a decline, still firmly above pre-pandemic levels, driven by the experiences of smaller SMEs:

- 29% of SMEs in 2024 reported having grown, the same as in 2023. Larger SMEs remained more likely to have grown than their smaller peers, but there was little change year on year by size of SME.

29%

of SMEs had grown, stable but below pre-pandemic levels

- The only types of SMEs who were more likely to report growth this year than last were those in the Hotel and Restaurant (up from 26% to 32%) and Health (up from 23% to 28%) sectors. These sectors had both lagged behind the others over the previous few years, and the increase in the proportion of SMEs in each reporting growth throughout 2024 makes them more comparable with other sectors, after a difficult few years.
- Immediately pre-pandemic around 1 in 5 SMEs reported a decline (19% in 2019). During the pandemic, this increased markedly, to 56% in 2021. While fewer SMEs are now reporting a decline (32% in 2024) this is essentially unchanged from 2023 (33%) and still clearly above pre-pandemic levels. It is more of an issue for the smallest SMEs where 35% reported a decline in 2024, reducing by size to 13% of those with 50-249 employees, and it is these declines amongst 0 and 1-9 employee SMEs that are keeping the overall figure above pre-pandemic levels.

Since 2021, a third of SMEs have held £10,000 or more of credit balances, but this fell in 2024 (29% overall) across all sizes and sectors:

- 29% of SMEs in 2024 reported holding £10k or more in credit balances, increasing by size from 22% of those with 0 employees to 85% with 50-249 employees. Those with a minimal risk rating (52%) or in Transport (36%) were the most likely to hold such sums.
- While the proportion of SMEs holding £10k or more in credit balances had been stable 2021-2023 it has fallen in 2024 (34% to 29%). This fall in the proportion holding such balances can be seen across all size groups (e.g. 50-249 employee SMEs have fallen from 93% to 83% over the last twelve months) and nearly every sector (e.g. Property/Business services 41% to 32%).
- In 2024 the sums held were the equivalent of 27% of SME turnover on average, or 3 months 'cover'. This is slightly lower than the 36-37% seen across 2021 and 2022 which was due to an increase in average turnover while sums held remained more stable.

Slightly fewer SMEs hold £10k+ in credit balances:

29%

While levels of planning have changed little since 2019, the number of SMEs who have innovated increased in 2024. The proportion of SMEs with a qualified person in charge of the finances continues to slowly increase:

- 46% of all SMEs had innovated, increasing by size of business from 43% of those with 0 employees to 66% of those with 50-249 employees. There has been an increase in reported innovation in 2024, after four waves of stability post-pandemic. This increase in innovation can be seen across all sizes of SME and across most sectors.
- 54% of SMEs planned, increasing by size of business from 48% of those with 0 employees to most, 88%, of those with 50-249 employees. This has changed little in the past few years but remains somewhat lower than pre-pandemic (57% planned in 2019), due in part to fewer SMEs having a business plan (23% now, 31% in 2017)
- 35% of SMEs had a financially qualified person looking after their finances, increasing by size of SME: 31% of 0 employee SMEs had a financial specialist compared to 78% of those with 50-249 employees. There has been a steady increase in this proportion over time, from 23% having a finance specialist in 2016.

Innovation levels have increased to 46% of SMEs

There has been a small but slow increase in the proportion of SMEs trading internationally over the last 8 years, but no short-term change. A stable 1 in 10 were exporting, with a fifth of exporters making half or more of all sales overseas and 4 in 10 saying they were reliant on overseas sales to achieve their overall targets:

- 20% of all SMEs were international, either importing and/or exporting, with the smallest SMEs less likely to trade overseas (19% of those with 0 employees increasing with size to 36% of those with 50-249 employees). Whilst there has been almost no change year on year, the longer-term trend is for a small but steady increase, from 14% trading internationally in 2016 to 20% currently, seen across all size bands. Those in Wholesale/Retail and Manufacturing remained the most likely to be trading internationally.
- A stable 11% of SMEs exported, increasing by size from 10% of those with 0 employees to 22% of those with 50-249 employees.
- 20% of exporters said that half or more of their overall sales came from overseas with limited variation by size of exporter. This was slightly lower than in 2023 (27%) but back to the levels previously seen (20% in 2022 and around 1 in 5 in most years).
- As in 2023, 40% of exporters felt they were very or fairly reliant on their overseas sales to achieve their overall sales targets, increasing to 50% of exporters with 50-249.

1 in 5 employers were struggling to recruit, with nearly a third reporting a recruitment freeze – albeit with key differences by size of SME. Less than 1 in 10 now employ staff from overseas:

- In H2 2024, 29% of employers had no plans to recruit in the next 12 months while 19% said they were struggling to hire the new staff they need. Analysis by size showed that smaller employers with 1-9 employees were more likely to have no plans to recruit than to be struggling to find staff (30% v 17%), while those with more employees were much more likely to report recruitment struggles than a freeze (27% v 12% for employers with 50-249 employees)
- The proportion with a recruitment freeze has increased from H2 2022 when 17% reported a recruitment freeze, seen fairly evenly across most demographics. The proportion struggling to recruit has fallen overall, from 26% in H2 2022 to 19% in H2 2024. The fall can be seen across most demographics, with the fall most significant among the largest SMEs where the proportion struggling to recruit declined from 46% to 19%
- 8% of employees had staff from overseas, down from 11% in 2023 and markedly lower than the 23% of SMEs that had staff from overseas in H2 2017 when this question was first asked. There is significant variation by size, from 6% of those with 1-9 employees to 36% of those with 50-249. Fully international SMEs and the Health sector (both 17%) are the most likely to employ staff from overseas.

1 in 5 SMEs, especially those who were smaller or younger, described themselves as Struggling and these SMEs were more likely to have been impacted by increased costs and less likely to feel the future offers opportunities. They were also more likely to be using external finance and to be planning to apply:

- In a new question from 2023, SMEs rated themselves from Struggling to Well off based on the way in which their monthly revenue and credit balances did or did not cover their needs.
- 21% of SMEs described themselves as Struggling ranging from 23% of those with 0 employees to 5% of those with 50-249 employees. A quarter of Starts (26%) and those trading for 2-5 years (23%) were Struggling, along with a similar proportion in Hotels and Restaurants (25%).
- Overall, there has been an increase in SMEs reporting that they are Struggling – up to 21% in 2024 from 18% in 2023. This is most visible among smaller SMEs (19% to 23% among those with 0

1 in 5

SMEs described themselves as 'Struggling'

employees and 15% to 17% among those with 1-9 employees) and the Agricultural (rising from 15% to 26%) and Manufacturing (17% to 23%) sectors.

- Over half of those with 50-249 employees said they were Comfortable or Well off, compared to 33% of those with 0 employees. Construction (40%) and Property/Business Services (38%) are the sectors most likely to be in this position.
- Compared to their peers, SMEs that were 'Struggling' were more likely to have been impacted by increasing costs (64% v 40% overall), less likely to feel the future offers opportunities (9% v 32%) and more likely to be using external finance (54% v 45% overall). This group includes 23% who are still repaying government-backed pandemic funding (v 19% overall). They were also twice as likely as SMEs overall to be planning to apply for (more) finance (19% v 10%).

Levels of trust in the main bank remain good. Very few SMEs had switched their main bank in 2024, but 1 in 5 said they wished they had a more active relationship with their main bank:

- 56% of SMEs reported a high level of trust in their bank, increasing slightly by size to 64% of those with 50-249 employees (albeit this is down from 72% in 2022).
- Trust in the main bank increased during the pandemic (from 55% in 2019 to 60% in 2021 and 2022), particularly amongst smaller SMEs. While it has fallen back slightly over the last two years, very few reported a low level of trust (12% in 2024).
- The proportion switching their main bank account remained limited (3%) with almost no variation by size, risk rating, age or sector.
- In H2 2024, 16% of SMEs said they had a strong working relationship with their bank. The biggest single group, 64% of SMEs, said the relationship was fine, but transactional, which left 20% wishing they had an active relationship with their bank. While this is still higher than the 15% seen in 2020 it is lower than the 27% seen in Q1 2023.

1 in 5

SMEs wished they had a more active relationship with their bank

5.Financial context

How are SMEs funding themselves? Part 1.

THIS CHAPTER PROVIDES

an overview of the types of external finance being used by SMEs, including the use of core and other forms of finance, crowd funding and the use of personal funds and trade credit.

5.Financial context

HOW ARE SMES FUNDING THEMSELVES? Part 1.

KEY FINDINGS

Almost half of SMEs (45%) were using any external finance in 2024:

- 45% of SMEs were using external finance in 2024, increasing by size of SME from 41% of those with 0 employees to 65% of those with 10-49 employees. As has been seen, from the pandemic onwards the largest SMEs were no longer the most likely to be using external finance (43% in 2024).
- Those more likely than their peers to have used any finance in 2024 included those with 1-9 employees (65%), those in Agriculture (51%) or Hotels and Restaurants (54%) and those trading for 6-9 years (53%).
- There has been very little change in use of finance between 2023 and 2024, with the Hotel and Restaurant sector being the exception (use of external finance rose from 47% to 54%).

45%

of SMEs were using any external finance in 2024

This included 1 in 5 SMEs still repaying government-backed pandemic funding:

- In 2024, just as in 2023, 19% of SMEs were still repaying government-backed pandemic funding. That represents two-thirds of the 28% of SMEs that were originally granted such funding.
- 33% of all SMEs with 10-49 employees were still repaying government-backed funding, as were 26% of those with 1-9 employees, compared to 17% of the smallest SMEs with 0 employees and 12% of the largest SMEs with 50-249 employees.
- 29% of those trading for 6-9 years and 26% of those trading for 10-15 years still had this finance to repay (due to their age relative to the pandemic, younger SMEs were less likely to have

19%

of SMEs are still repaying pandemic funding

had or be repaying such funding). Looking across the sectors the Hotel and Restaurant sector was the most likely to have pandemic finance to repay (27%).

Just over 1 in 4 used 'core' finance and 2 in 10 used 'other' forms of finance:

- 28% of SMEs were using one of the 3 forms of 'core' finance, down very slightly on the 31% using such funding in 2023. 15% were using credit cards, 11% a bank overdraft and 9% a bank loan. All but the largest SMEs were less likely to be using core finance in 2024 compared to 2023, down 3-4 points.
- Back in 2023, the higher use of external finance was a result of both the improved measurement of pandemic funding and increased use of core funding. In 2024 the story was one of stability/decline in usage of core finance, across most sizes, sectors and ages of SME. Wholesale/Retail was a good example – core finance use was 30% in 2022, rose to 34% in 2023 before falling back to 30% in 2024.
- Those with 10-49 employees were the most likely to be using core finance (48%), with higher use of all the forms of finance (credit cards 32%, a bank overdraft 18% and/or a bank loan 19%), albeit usage (in total and across each product) is down on 2023.
- 20% of SMEs used some 'other' form of finance in 2024, primarily leasing/hp (10%), while 8% had received a loan from directors, friends or family.
- Those with 10-49 employees were again the most likely to be using other forms of finance (40%), with higher use of leasing/hp (30%) but not of loans from directors, friends or family (9%).

Three quarters of those using external finance were borrowing less than £25,000, and half were borrowing on a fixed rate. A quarter said some or all of their facilities were secured:

- 74% of SMEs using finance were borrowing less than £25,000 in total –up from 67% in 2023. The 26% of all finance users borrowing more than this (down from 33% last year) increased by size of the borrower from 17% of those with 0 employees to 80% of those with 50-249 employees. It was also higher for those still repaying pandemic funding, where 34% were borrowing more than £25,000 (albeit down from 44% in 2023).
- Those in Agriculture or the Hotel and Restaurant sector were more likely than their peers to be borrowing £25,000+ (36% and 37%), both down on 2023, and Starts were much less likely to be borrowing such sums in 2024 than in 2023 (16% compared to 32%).

- 54% of borrowers said that some or all of their borrowing was on a fixed rate. There was little difference by size of SME (54-55% on a fixed rate) except for the largest SMEs (45%). Similarly, there was little difference by sector (52-59% on a fixed rate) with the slight exception of Construction (50%) and Agriculture (61%).
- 24% of borrowers said that some or all of their borrowing was secured. This increased by size of borrower, from 22% of those with 0 employees to 31% of those with 50-249 employees (down from 44% in 2023).

14% of borrowers (the equivalent of 6% of all SMEs) were concerned about repaying the finance they currently had, in line with 2023. 8 in 10 said these concerns had impacted their plans for their business but over half had no plans to speak to their lender, with some uncertainty about how the lender would respond:

- 14% of borrowers were concerned about how they would repay the finance they had. This was more likely to be the case for smaller SMEs (15% of those with 0 employees and 15% of those with 1-9 employees compared to 8% and 3% of those with 10-49 and 50-249 employees).
- This is the equivalent of 6% of all SMEs, in line with 2023 and down from 9% in Q2-4 2021. Those in Hotels and Restaurants (9%), Manufacturing (8%), and those trading for 6-9 years (8%) were the most likely to be concerned in 2024.
- 8 in 10 of those concerned said this had impacted their plans for the business, primarily how much they can grow the business (65% of those concerned) or invest in it (54%). This is up from 7 in 10 of those concerned in H2 2022 reporting any impact and is the equivalent of 5% of all SMEs in 2024.
- 25% of all those concerned about repaying their existing finance had already spoken to their lender, with a further 11% planning to do so, leaving the largest group (63%) with no plans at all to speak to their lender.
- Three-fifths of those who had already spoken to their lender had received help, or were still in discussions, and typically had agreed to a repayment or re-financing plan, with over half satisfied with the outcome.
- Amongst those who had not already spoken to their lender, around a quarter were sure that their lender would treat them fairly (29%), offer practical help (23%) and/or be supportive (19%), while around half were uncertain that these things would happen. Between a fifth and a third thought it unlikely that their

14%

of borrowers were worried about repaying the finance they already have

lender would assist in any way, and this was more likely to be the view of those with no plans to speak to their lender.

Other sources of funding for SMEs in 2024 included injections of personal funds, while a quarter of SMEs had a facility for their business in a personal name:

- 37% of SMEs reported an injection of personal funds into the business in 2024, 14% through choice and 22% through need.
- The smallest SMEs (39%), those with a worse than average risk rating (49%), those in the Hotel and Restaurant sector (45%) along with Starts (59%) and those trading for 2-5 years (46%) were more likely to report such an injection of funds than their peers.
- Since 2021, over 1 in 3 SMEs have reported an injection of funds (34-37%) compared to around 1 in 4 pre-pandemic (24% in 2019), with smaller and younger SMEs always more likely to report such an injection as were those that had been a 'Would-be seeker of finance' (69%).
- Whilst 9% of SMEs used a personal bank account for their business banking (down from around 1 in 5 in the early days of the Monitor) 10% had a facility in a personal name for their business, the equivalent of 24% of all finance users, both driven by the smallest SMEs.

Over 1 in 3 of SMEs had seen an injection of personal funds

2 in 5 SMEs regularly bought on trade credit in 2024. Three-quarters of SMEs in total used any of the various forms of 'Business Funding':

- 39% of SMEs regularly bought on trade credit, with the larger SMEs more likely to be doing so (32% of those with 0 employees to 79% of those with 50-249 employees).
- The proportion using trade credit increased from 34% in 2018 to 37% in 2019 as more SMEs with 1-9 employees accessed this credit. Since then the proportion of 0 and 1-9 employee SMEs using trade credit has remained broadly stable while increasing for those with 10-49 or 50-249 employees.
- Taking use of external finance, trade credit and/or injections of personal funds together saw 75% of SMEs in 2024 using any form of 'Business Funding', just as in 2023. Those with 0 employees were the least likely to be using it (72%) compared to 90% of those with 10-49 employees, boosted by their higher use of external finance reported above.

6.Financial context £

How are SMEs funding themselves? Part 2.

THIS CHAPTER PROVIDES

This chapter provides an overview of other aspects of external finance – Permanent non-Borrowers and attitudes to using finance.

Financial context

HOW ARE SMES FUNDING THEMSELVES? Part 2.

KEY FINDINGS

1 in 3 SMEs met the revised definition of a Permanent non-borrower (an SME with no use of, and little apparent appetite for, finance):

- The definition of a PNB was revised in 2023 to exclude anyone who had applied for government-backed pandemic funding. This change, coupled with the increase in the use of core finance, has reduced the proportion of PNBs.
- In 2022, under the previous definition, 48% of SMEs were PNBs (decreasing only slightly to 46% when adjusted as far as was possible at that stage for pandemic funding). In 2023 and 2024, under the new definition, 35% were PNBs. This is compared to 39-41% during the pandemic and 48% pre-pandemic in 2018.
- The proportion of PNBs in 2024 declined by size from 38% of 0 employee SMEs to 23% of those with 10-49 employees, but then increased to 43% of those with 50-249 employees who remained less likely to be using external finance than pre-pandemic.
- Other SMEs more likely to meet the definition of a PNB included Starts (39%) and those in the Health (51%) and Property/Business Services sectors (39%).
- In 2024, all sizes of SME were more likely to be using finance than to be a PNB (+10 for SMEs overall and increasing to +42 for those with 10-49 employees). This is in contrast to the pre-2020 era when more SMEs (mostly those with 0 employees) were more likely to be PNBs than using finance.
- PNBs were more likely than their peers to have made a profit, as likely to hold £10k or more of credit balances or have a minimal or low risk rating but less likely to be international, innovative or planning to grow. This has been true for several years now.

1 in 3
SMEs met the definition of a Permanent non-borrower

- In 2024, 20% of SMEs were in a 'middle' group neither using finance nor meeting the definition of a PNB. Analysis showed that such SMEs were typically small and innovative but 1 in 4 felt they were currently 'Struggling'.

Almost 2 in 5 SMEs were happy to borrow to grow and 1 in 3 met the definition of an Ambitious Risk Taker:

- 38% of SMEs were happy to use finance to grow, an increase of 5 points in 2024 after several years of stability (31-33% in 2022 and 2023). Agreement increased from 39% of those with 0 employees to 58% with 10-49 employees and 39% of the largest SMEs, along with 43% in Wholesale/Retail, 42% in Agriculture, and 55% of Starts. Notable increases year on year were also seen in the Property/Business Services sector (up 10 points to 38%) and Health (up 13 points to 35%).
- 43% of SMEs agreed they wanted to be a bigger business and 49% were prepared to take risks, with 31% of SMEs agreeing with both statements and becoming 'Ambitious Risk Takers', up 4 points from the 27% meeting this definition in 2023. SMEs more likely to meet this definition include those with 10-49 or 50-249 employees (39% and 38%), as well as Starts and those trading for 2-5 years (55% and 48%), with Permanent non-borrowers amongst those less likely to meet the definition (24%).

Most SMEs were willing to accept slower growth rather than borrow more. Half had been put off applying by the increases in interest rates and 2 in 5 thought it could be quite difficult for them to get finance:

- Nearly 4 in 5 SMEs (79%) said they were willing to accept a lower growth rate rather than borrowing to grow faster. This was a majority opinion among all SMEs, from the smallest, 79% of those with 0 employees, to 56% of those with 50-249.
- This may have been influenced by perceptions of interest rates – recent increases have made half of SMEs (53%) less likely to apply for new external finance. When asked directly, 65% of those who strongly agreed that they were willing to accept a lower growth rate rather than borrowing to grow faster, said they preferred to be self-reliant, ahead of 25% who thought finance was too risky and 18% that it was too expensive.
- 36% of SMEs believed it would be quite difficult for a business like theirs to get finance, up from 31% in 2022. This was most likely to be the case for 0 employee SMEs (37%) then declining by size to 16% of those with 50-249 employees, as well as those with a worse than average risk

In 2024, more SMEs were Ambitious Risk Takers:

31%

8 in 10

would rather grow more slowly than borrow, with

1 in 3

thinking it could be difficult for them to get finance

rating (41%), those in Hotels and Restaurants (40%), Transport (39%), Agriculture (38%) and both Starts and those trading for 2-5 years (both 44%). It was also higher for those already using external finance (40%).

- 19% of SMEs in 2024 were happy to borrow to grow but also felt that it could be difficult for them to get finance and this was more likely to be the case for smaller and younger SMEs, as well as Ambitious Risk Takers and almost half of those planning to apply for finance.
- Over half of SMEs (55%) said that they never think about whether they could or should use more external finance. This group represents over half of 0 employee SMEs (57%) to 26% of those with 50-249 employees.
- 1 in 6 SMEs (21%) were using external finance and agreed that they would be happy to use it in future, ranging from 18% of those with 0 employees to 39% of those with 10-49 employees. The remaining users of finance, 24% of all SMEs, would not be happy to use finance in future (the equivalent of 56% of all users of finance). Those with 50-249 employees were less likely to be in this group (19%).
- Around 45% of SMEs have typically been in the ‘not using and not happy to use finance in the future’ category, but the proportion in 2024 was slightly smaller at 38%, due to an increase in those happy to use in future, whether they are currently using finance (up 3 points to 21%) or not (up 2 points to 17%).

7. Need for funding

THIS CHAPTER PROVIDES

details on those SMEs that reported a funding need in 2024, including why the funding was needed and what steps were considered and taken to meet that need.

Need for funding.

KEY FINDINGS

A small minority reported having had a need for funding in the previous 12 months, well below levels seen during the pandemic but higher than in 2023. In contrast to the pandemic years, this need was more likely to have been for business development rather than for cash flow purposes:

- 7% of SMEs in 2024 reported having had a funding need, with limited variation by size of SME (7-8%) with the exception of those with 50-249 employees (3%). The need for finance was marginally higher for younger SMEs (12% for Starts and 10% for those trading for 2-5 years) and also for those already using external finance (12% v 3% of those not using funding).
- The need for funding was 4% when first asked in 2018, increasing in 2020 to 9% and again in 2021 to 12%. It fell to a pre-pandemic level of 4% in 2023 but has increased again in 2024.
- In 2024, just over half of those with a need for funding (57%) said that it was for business development purposes, primarily to invest in new plant and machinery (23% of those with a funding need).
- 4 in 10 said the need was cash flow related (40%), with most saying it was to boost working capital (35% of those with a funding need).
- This split between funding needed for business development and cash flow is very similar to those seen pre-pandemic – amongst those reporting a previous need for funding in 2018, 58% had wanted funds for business development and 42% for cash flow. This balance switched markedly in 2020 and 2021 (when 81% said their funding need related to cash flow compared to 24% for business development) but returned to a pre-pandemic position in 2023 that has been maintained this year.
- 1 in 3 of those with a funding need (37%) said they needed more than £25,000 of funding increasing to 76% of those with 10-249 employees.

7%

of SMEs had a need for funding, increasingly for business development

Most of those with a funding need took some initial action to meet this need. Fewer had a chat with a financial provider and while looking online is still common, the way SMEs are using online tools has changed :

- 9 in 10 of those with a funding need took some initial action as a result.
- 34% had an informal chat with one or more of: their main bank (19%), another provider (7%) or to an advisor 6%). Whilst this remained a key step, it was mentioned by fewer of those with a need for funding in both 2023 and 2024 than in previous years, when typically over 4 in 10 had an informal chat with someone.
- After a dip in 2023 when fewer of these chats were with the main bank, the proportion rose again in 2024 to be closer to 2022 levels. This was due to the change seen among the smaller SMEs with 0-9 employees (in 2023, 9% approached their main bank v 19% in 2024), rather than the larger ones (in 2023, 29% of those with 10-249 employees approached their main bank compared to 19% this year).
- 25% of those with a funding need looked online, whether for application advice (8%, down from 16% in 2023), to look for possible providers (15%, up from 9%) or comparison sites (5% - unchanged). The proportion looking online has been more stable over time and favoured by smaller SMEs (26% v 14% with 10-249 employees in 2024).
- 13% discussed the need for funding within their business, back to typical levels in the past. Larger SMEs were more likely to take this step than smaller ones (24% v 13% of those with 0-9 employees).
- Almost as many, 18%, considered funding the need from within the business/directors. This proportion has seen some variation over time, ranging from 10% to 23% since 2018.

Most took action to meet this need, though fewer are chatting to a possible provider

34%

Over half went on to consider applying for funding, and in the end, half had a borrowing 'event' of some sort, with the main bank less involved in the process than previously seen, especially for smaller SMEs:

- 57% of those responding to a need for funding considered applying for finance (including 34% who considered applying to their main bank). Larger SMEs were more likely to consider applying somewhere (77% v 56% of smaller SMEs) but the proportions considering their main bank were similar (36% v 34% of smaller applicants).
- Overall, the proportion that considered applying for finance was in line with 2022 (58%) but somewhat lower than pre-pandemic (67% in 2018) and markedly lower than during the exceptional circumstances of the pandemic (80% in 2021).
- In the end, 51% of those responding to a need for funding had a borrowing event somewhere, 18% decided to fund all or part of it themselves and 17% decided not to take any funding. At the time of interview, 18% were still deciding what to do, twice the level typically seen pre-2023.
- Larger SMEs were more likely to have had a borrowing event somewhere (67% v 50% of smaller SMEs) and to have applied to their main bank (35% v 27% of smaller SMEs).
- Compared to previous years, fewer SMEs had a borrowing event (pre-pandemic around 6 in 10 did) and fewer had a borrowing event at the main bank (27% did, compared to 47% in 2022), slightly above 2023 (25%). Applications to other providers have been more stable over time.

With almost 1 in 5 still deciding what to do, less than half of the initial group of SMEs with a need for funding had applied for finance:

- 44% of the SMEs that originally identified a need for funding ended up having a borrowing event, in-line with 2023, but lower than in either 2022 (61%) or during the pandemic, when three quarters of those with a need went on to apply.
- As in 2023, this was mainly due to more SMEs still making up their minds (18% up from under 10% pre-2023), or deciding not to apply (17%, up from 10% in 2022).

44%

of those with a need went on to apply, with

18%

still deciding what to do

8. An overview of borrowing events

THIS CHAPTER PROVIDES information on the number and range of borrowing events now captured on the SME Finance Monitor.

8. An overview of borrowing events.

KEY FINDINGS

12% of SMEs reported any borrowing event in 2024, led by the automatic renewal of overdrafts and little changed from 2022-23:

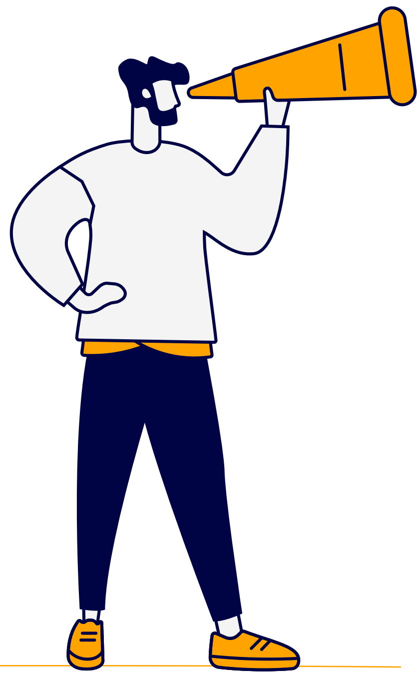
- 12% of SMEs reported any borrowing event, with 4% reporting an application for new or renewed funding, 6% an overdraft that was automatically renewed and 3% a facility that was cancelled or paid off early.
- With the exception of the largest SMEs (where 8% had a borrowing event), there was little difference by size of SME (12-15%). By sector there was little difference (12-15%) with the exception of Agriculture (18% had an event, with 12% having an automatically renewed overdraft) and little difference by age of SME (10-12%) with the slight exception of those trading for over 15 years (14%).
- Those already using external finance were more likely to report a borrowing event (23%) than those not using finance (3%), including 13% reporting the automatic renewal of an overdraft.
- During the pandemic years, borrowing events increased to 16-17% of SMEs, but since 2022 have been more in line with pre-pandemic years (13% had a borrowing event in 2019). Whilst there was little change overall 2023 to 2024 (11% to 12% with a borrowing event), Starts were more likely to report a borrowing event in 2024 (up 4 points to 12%) as were those in Manufacturing (up 6 points to 14%).

Bank loans remained the most common product applied for or renewed:

- 51% of SMEs reporting an application for a new or renewed facility said that it was for a bank loan, and this was more likely to be the case for smaller applicants (51% of those with 0-9 employees) than larger ones (38% of those with 10-249 employees).

12%

of SMEs reported any borrowing event



- A quarter had applied/renewed a bank overdraft (this does not include automatic renewals) with no difference by size of SME.
- 1 in 10 (11%) had applied or renewed leasing/HP and this was more likely to be the case for larger applicants (26%) than smaller ones (10%).

Just over half of SMEs with an overdraft currently said that it had been automatically renewed in the previous 12 months:

- 55% of SMEs with an overdraft reported an automatic renewal in the previous 12 months, the equivalent of 6% of all SMEs and stable over recent years.
- Amongst SMEs with an overdraft, an automatic renewal was more likely for those with 1-9 employees (58%) and those in Manufacturing (66%).

55%

of SMEs with an overdraft said that it had been automatically renewed

As in previous reports, very few SMEs said that a facility had been repaid or cancelled early:

- 3% of SMEs reported either that their bank had sought to cancel or renegotiate a facility (1%) or that they had (2%), unchanged from 2023, and ranging from 4% of those with 0 employees to 1% of those with 50-249 employees with limited variation by sector.

This is the second of three revised chapters looking at borrowing events in the wider finance market beyond loans and overdrafts:

The last chapter looked at whether SMEs had identified a need for external funding and what steps they took as a result of that need, including whether they applied for finance (a Type 1a borrowing event). This analysis is by interview date.

This chapter provides an overview of all borrowing 'events' (including Type 1a and other events), and the types of SME more or less likely to have had each of these events. This analysis is also by interview date.

The next chapter looks specifically at the Type 1 borrowing events, the final outcome of the applications made for finance and the impact of the application on the SME. This analysis is primarily based on all applications made between Q3 2023 and Q4 2024 and reported in interviews conducted in the same period (application data for Q2 2024 onwards is interim at this stage).

9. Outcome of Type 1 applications

THIS CHAPTER PROVIDES

more detail on the outcome of all Type 1a and Type 1b borrowing events for new/renewed finance, including the amount granted and whether security was required.

9.The outcome of Type 1 applications

KEY FINDINGS

Applications for finance made in the 18 months Q3 2023 to Q4 2024 (on which this chapter is based) were most commonly for a loan, made to a known provider such as the main bank, and in the name of the SME:

- 38% of applications made in this time period were for a bank loan, while 17% were for a bank overdraft.
- Most applications were to a known provider, with 49% made to the main bank and 16% to another existing provider.
- 89% were made in the name of the SME rather than in a personal capacity.
- 6 in 10 applications (63%) involved a product that had not been applied for before. This proportion of first time applicants was in line with the 18 months to Q4 2023, and remained higher for smaller SMEs: 65% of applications from 0 employee SMEs and 63% of those from SMEs with 1-9 employees were first time applicants, compared to 33% for those with 10-49 employees and 16% with 50-249 employees.

47% of applications with a response resulted in a facility, increasing by size of SME. This remains lower than previously seen with smaller SMEs that have applied seeing more of a change in success rates over time than larger ones:

- 47% of applications resulted in a facility, including 45% of applications where the SME was offered the facility they wanted and took it. 10% were offered something but declined it (typically for cost reasons) and 43% were turned down. This success rate is slightly lower than the last 18 month period to Q4 2023 (51%).
- Those more likely to be successful included SMEs with more than 10 employees (80% if 10-49 employees and 94% if 50-249 employees), those applying to an existing provider that was not their main bank (62%), and those applying for leasing/HP (78%).

THIS CHAPTER

is based on the 986 applications for new or renewed finance made and reported between Q3 2023 and Q4 2024 to date, that had received a response, rather than on respondents

47%

of applications resulted in a facility

Smaller SMEs have seen more of a decline in success rates over time than larger ones

- Pre-pandemic applications were more likely to have been successful than the current ones. In the 18 months to Q4 2019, 71% of applications were successful, some 24 percentage points above the current success rate of 47%. Analysis by size shows that smaller SMEs have seen this decline from 2019 more markedly than larger ones: 0 employee success rates are down 24 points from 63% to 39% and for those with 1-9 employees the change is 22 points from 76% to 54%. By contrast for those with 10-49 employees the change is 6 points (86% to 80%) and for those with 50-249 employees it is 4 points (98% to 94%).
- To a limited extent this change is also due to more SMEs turning down the facility they were offered (10%, in line with 11% in the 18 months to Q4 2023 but prior to that less than 5% of applications were declined by the SME). This is something which 0 employee SMEs were the most likely to have done (13% of applications made by this group).
- 37% of all successful applications were secured, up from 28% for the 18 months to Q4 2023 and more in line with pre-pandemic levels, and there was a similar pattern for those on a fixed rate: 86% were on a fixed rate, up from 72% for the 18 months to Q4 2023 and also more in line with pre-pandemic levels.

43% of applications were turned down by the lender, broadly stable post pandemic but higher than typically seen pre-pandemic:

- Applications from smaller SMEs were more likely to be declined (48% if have 0 employees, 40% if have 1-9 employees). 45% of applications to the main bank were turned down, as were 44% to a new provider and 53% of applications from first time applicants.
- In the previous two 18 month periods, to Q4 2022 and Q4 2023, 40% and 49% of applications were declined, so the current figure is in line with them, though all are higher than the 26% declined in the 18 months to Q4 2019.
- The main reasons why the application was declined were current business performance and a poor credit rating or credit issues, both mentioned by 1 in 4 of those declined. 1 in 5 of those declined mentioned a lack of security and the same proportion said that they had not been given a reason.

- A minority, 1 in 5, of those turned down said that they were either very satisfied with the outcome of their application or that it had had no adverse impact on the business, compared to 75% of those offered what they wanted. For those declined the main adverse effects were that running the business was more of a struggle and/or that they had not expanded as they would wish, with some saying they had made spending cuts and/or had to make staff redundant.

Those declined said running the business was more of a struggle with some making cuts to spending and headcount

There were more loan applications than overdraft applications but they were less likely to result in a facility, impacting the overall success rate:

- Not all applications made had received a response, but where they had 40% were for bank loans, compared to 20% for bank overdrafts.
- 37% of those bank loan applications resulted in a facility, 12% were turned down by the applicant and 51% were declined by the lender. By comparison, 47% of applications for a bank overdraft resulted in a facility, 4% were turned down by the applicant and 49% were declined by the lender.
- Pre-pandemic around 6 in 10 loan applications were successful. During the pandemic when government backed loans were available, success rates increased to over 8 in 10, but they have declined steadily since, from 56% in the 18 months to Q4 2022 to 37% in the 18 months to Q4 2024. Indicatively, loan applications made specifically to the main bank have also seen a decline in success rates and were less likely to have been successful than those made elsewhere.
- For bank overdrafts, pre-pandemic around 7 in 10 applications were successful. There was no pandemic 'boost' and the success rate has changed very little since the 48% that were successful in the 18 months to Q4 2022. Indicatively, success rates for overdraft applications made to the main bank are also stable, and in line with current overall overdraft success rates, but lower than pre-pandemic.

Loan applications have become less likely to be successful, overdraft success rates are more stable

10. Not looking to borrow

THIS CHAPTER LOOKS
at those that had not had a borrowing event, to explore whether they wanted to apply for finance in the previous 12 months and any barriers to applying.

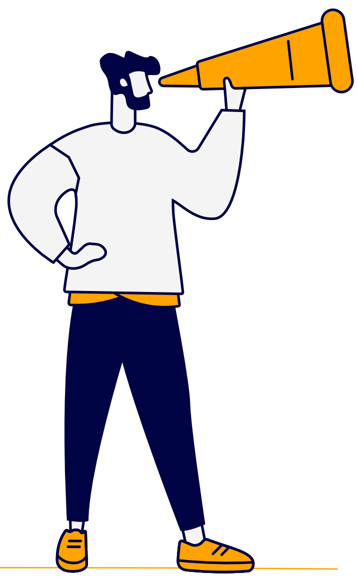
10. Not looking to borrow

KEY FINDINGS

Most SMEs continued to be 'Happy non-seekers' of finance

12% of SMEs reported a borrowing event in 2024. Amongst the remaining SMEs, as in previous years, there were very few 'Would-be seekers' of finance (5%) and most met the definition of a 'Happy non-seeker' (82%):

- 12% of SMEs in 2024 reported a borrowing 'event'. As detailed in an earlier chapter, this was somewhat lower than typically seen pre-pandemic (13-17% to 2019) and notably lower than 2020 and 2021 when 16-17% of SMEs had a borrowing event.
- Would-be seekers are SMEs that wanted to apply for finance but something stopped them. They make up a small minority of SMEs and this was also true in 2024 (5%) declining by size of SME from 6% of those with 0 employees to 1% of those with 50-249 employees. SMEs in Agriculture and the Other Community sectors (both 9%) and those trading for 2-5 and 6-9 years (both 8%) were somewhat more likely to meet the definition.
- The remaining SMEs are those that had not sought finance nor wanted to, the Happy non-seekers. They continued to make up the majority of SMEs in 2024 (82%). Whilst they had not sought (more) finance, 38% of them were using external finance, in line with recent years.
- Since 2017, the proportion reporting a borrowing event has been in the mid-teens, the proportion of Would-be seekers has been 1-5% and around 8 in 10 or more have been Happy non-seekers of finance.



Asked what stopped them applying, in 2024, Would-be seekers were most likely to mention the process of borrowing, such as the hassle and expense, with around 1 in 4 WBS having felt discouraged from applying:

- 56% of all Would-be seekers said the main reason they did not want to apply was the 'process' of borrowing, because they thought it would be too expensive, too much hassle etc. (51% gave this as their main reason).
- 27% cited 'discouragement', mainly that they thought the bank would turn them and so didn't apply (26% gave this as their main reason).
- 20% said the main reason was around the 'principle' of borrowing such as not wanting to lose control of the business (12% gave this as their main reason) and 12% mentioned the current business climate and that this was not the right time to apply (12% gave this as their main reason).
- Analysis over time shows the proportion mentioning the process of borrowing has typically been around 45%, with the 56% for the current period the highest seen. Meanwhile, discouragement has been as high as 50%, but has more recently been around 30%, as it is in the current period.

The small group of 'Would-be seekers',

4%

were typically put off by the process of borrowing

11. The future

THIS CHAPTER PROVIDES
an overview on growth plans and perceived barriers to that growth. It then explores SMEs' intentions for the next 3 months, in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period.

11. The future

KEY FINDINGS

Overall, 1 in 3 SMEs in 2024 felt the future offered more opportunities than threats, with a similar proportion at the other end of the scale seeing more threats than opportunities. The size of both groups increased slightly over the course of the year, as the proportion in the middle reduced slightly:

- 33% of SMEs in 2024 felt that the future offered more opportunities than threats, while 30% saw more threats than opportunities and 36% were in the middle.
- There were limited differences in the proportion seeing more opportunities by size, with those with 50-249 employees slightly less likely to see more opportunities (29%) than their peers (33-35%). Starts were the most likely to see more opportunities (41%) compared to 31-32% of those trading for more than 10 years, and by sector 38% in Construction saw mainly opportunities compared to 27% in Hotels and Restaurants.
- Over the course of 2024, the proportion seeing more opportunities increased from 29% in Q1 2024 to 33% in Q4 2024, but the proportion seeing mainly threats also increased (25% to 30%) as fewer SME settled in the 'middle ground'.
- Since 2021, the proportion seeing mainly opportunities has been stable at around 3 in 10 SMEs. Whilst there has been little change overall between 2023 and 2024, those in Wholesale/ Retail, Manufacturing, Health and Agriculture were all more likely to see opportunities in 2024 than in 2023 (up between 6 and 8 points) and only Transport was less likely to see opportunities in 2024 than in 2023 (down 4 points).

In Q4 2024, 6 in 10 SMEs were planning one or more growth related activities, typically around innovation or taking on staff:

- 61% of all SMEs were planning some growth activities, including, in Q4 2024, significantly improving an aspect of the business

As many SMEs felt the future offers more opportunities than threats,

33%

as felt the opposite

(34%) taking on more staff (26%) and developing a new product or service (23%).

- The larger the SME the more likely they were to have any activities planned (58% for those with 0 employees to 86% of those with 50-249 employees) and this was also the case for younger SMEs (87% of Starts had something planned compared to 50% of those trading for more than 15 years).
- For 2024 as a whole, 57% where planning any of these activities, up slightly from 54% in 2023 and in line with H2 2021 (also 57%). The proportion planning activities post-pandemic has typically been above the levels seen pre-pandemic (in 2018, 38% were planning any activities, albeit with one less metric on the list).

46% of SMEs had been innovative recently and 39% expected to be in the coming year, defined as either significantly improving an aspect of the business and/or launching a new product or service. As a result, 58% of SMEs have some involvement in innovation, whether past or future, and 27% can be described as consistently innovative (as they have innovated in the past and also plan to do so in future):

- Those most engaged with innovation include the largest SMEs with 50-249 employees (78% any innovation and 48% consistent innovators), those trading for 2-5 years (70% any innovation and 36% consistent innovators) and those who plan to grow (75% any innovation and 41% consistent innovators). There is also more engagement from those planning to apply for finance (70% any innovation and 42% consistent innovators).
- By sector, those in Agriculture were the least engaged (47% any innovation and 20% consistent innovators) compared to those in the Property/Business Services sector (63% any innovation and 32% consistent innovators).
- Compared to Q2-4 2023 when all elements of these questions were first asked, the proportion reporting/planning any innovation is up 3 points in 2024, with an increase across all sizes of SME, amongst those with a poorer risk rating and those in Construction (who do though remain less likely to be innovative). Levels of consistent innovation were also up 3 points, and this was more likely for SMEs with 10-49 or 50-249 employees as well as those with a poorer risk rating and those in Construction.

1 in 4

SMEs had both innovated and planned to do so again in the coming year

47% of SMEs in 2024 were planning to grow, increasing by size of SME but declining by age of SME. 1 in 5 SMEs (excluding Starts) had both grown and planned to grow again in the coming year and a similar proportion had got smaller and were not planning to grow:

- Growth ambitions increased by size of SME (from 44% of those with 0 employees to 62% of those with 10-49 employees and 61% with 50-249 employees) and decreased by age of SME (from 70% of Starts to 33% of those trading for more than 15 years).
- The 47% planning to grow in 2024 is little changed from the 46% planning to do so in 2023, and there has been little change in this proportion since 2017 (45-49%) with the exceptions of 2019 (when 52% planned to grow) and 2020 (when 37% did). That said, growth aspirations for those in Wholesale/Retail (up 6 points to 52%) and Hotels and Restaurants (up 12 points to 47%) did increase in 2024 compared to 2023, while those for Transport (down 6 points to 37%) and also Health (down 13 points to 36%) declined.
- 19% of SMEs (excluding Starts) had both grown in the past year and expected to grow again in the coming year. This was more common amongst larger SMEs (37% for those with 10-49 employees and 36% for those with 50-249 employees) and was unchanged from both 2022 and 2023, all higher than the 11% in 2021 that had grown and planned to grow again.
- 18% of SMEs (excluding Starts) had both declined in the past year and did not expect to grow in the coming year. This was more common amongst smaller SMEs (20% for those with 0 employees) and whilst only slightly lower than in 2023 (18% from 20%) there has been a steady longer term reduction in this proportion from the 31% of SMEs in this category in 2021.

19%

of SMEs grew last year and expected to grow again this year, but as many,

18%

declined last year and do not expect to grow this year

Taking future growth and innovation together, 27% of SMEs in 2024 met the definition of an 'Ambitious Innovator', an SME that is planning both to grow and to innovate in the coming year. 40% of SMEs had no plans to either grow or innovate:

- The proportion of Ambitious Innovators (27% overall) increased by size of SME from 24% of those with 0 employees to 43% of those with 50-249 employees. Other SMEs more likely to meet the definition included Starts (43%) and those in Wholesale/ Retail (34%).
- 40% of SMEs had no plans to grow or innovate and this was more likely to be the case for those with 0 employees (43%), those trading for more than 15 years (52%) and those in Health (55%) and Agriculture (52%).

27%

of SMEs were Ambitious Innovators

The key future barriers for SMEs remained higher costs and the current economic climate, though the largest SMEs were less likely to see them as major barriers. A new barrier around lower demand for products and services was an issue for 1 in 5 SMEs:

- In Q4 2024, 35% of SMEs saw increased costs as a major barrier, with limited differences by size (34-37%) with the exception of those with 50-249 employees (27%). It was more of a barrier for Starts (38%) and those trading for more than 15 years (37%) as well as those in Wholesale/Retail and Hotels and Restaurants (both 42%) and also Agriculture (41%).
- 30% saw the current economic climate as a barrier, with variation by size of SME from 33% of those with 1-9 employees to 18% of those with 50-249 employees. There was limited variation by age of SME (30-33%) with the exception of Starts (24%) and it remained much more of an issue for the Hotel and Restaurant sector (45%) than for their peers (25-35%).
- A new potential barrier introduced in Q3 2024 was 'Lower demand for your products/services' seen as a major barrier by 20% of SMEs in Q4 2024 and declining by size of SME from 21% of those with 0 or 1-9 employees to 11% of those with 50-2149 employees. It was slightly more of a barrier for those trading for less than 10 years (22-24%) than older SMEs (18-19%), and for the Other Community sector (28%).

Over recent years, as higher costs and the economic climate remained key barriers, the proportion citing political uncertainty and cash flow/late payment as barriers have increased:

- When first asked in 2022, 39% of SMEs cited increasing costs as a major barrier, decreasing slightly to 35% in 2024 (when it was described as 'higher costs') but still the top barrier.
- Concern about the economic climate increased to 36% in 2020, eased to 23% in 2021, but has been 3 in 10 since (30% for 2024). It is mentioned more by smaller SMEs and also those in the Hotel and Restaurant sector (44% in 2024).
- Political uncertainty and future government policy increased as a barrier to 24% in 2019 and 2020, was slightly lower in 2021 (19%) but has increased steadily since to 26% in 2024, led by SMEs with employees, notably those with 1-9 or 10-49 employees.
- Typically around 1 in 10 SMEs used to see cash flow and late payment as a major barrier, but that proportion has increased over recent years to 19% in 2024.
- Access to finance, the focus of this report, has always been less likely to be mentioned than other barriers (7-8% since 2019).

Increasing costs and the economic climate remained key barriers for SMEs

Cash flow and late payments has increased as an issue, to

1 in 5

SMEs

Looking to the future, 9% of SMEs in Q4 2024 expected to have a need for funding and 11% expected to apply for or renew some funding. As many, 12%, expected to reduce the amount of finance they were using and the most mentioned action was to inject personal funds into the business (19%):

- 9% of SMEs in Q4 expected to have a need for finance in the coming months, with limited variation by size (7% of those with 50-249 employees to 12% of those with 1-9 employees).
- 11% expect to apply for, or renew, some external finance, and again this was more likely to be the case for those with 1-9 employees (15%), compared to 7% with 50-249 employees. As with past finance, there has been an increase over recent years in the proportion wanting future funding for business development, to 67% in 2024 as a whole, compared to 39% wanting funding for cash flow purposes.
- Those with 1-9 employees were the most likely to be planning a change to their finances as they were also the most likely to be planning to reduce the amount of finance they were using (16% v 12% overall).
- 0 employee SMEs were the most likely to be planning an injection of personal funds (20% v 19% overall, declining by size of SME to 3% of those with 50-249 employees).

Confidence than an application would be successful remained lower than previously seen, and lower for those with plans to apply than those thinking about a more hypothetical application:

- In 2024, 32% of those with plans to apply/renew finance were confident of success, 31% were not confident and 37% were not sure what the outcome would be. Confidence was lower amongst those with 0-9 employees (31%) than those with 10-249 employees (48%).
- Over recent years, confidence about a planned application has declined from 56% in 2019 to 33% in 2022 with little change since (32% for 2024 as a whole). This drop of 24 points from 2019 to 2024 was seen amongst both smaller applicants (down 23 points) and larger ones (down 26 points).
- Those with no current plans to apply/renew have always been more confident of success than those with actual plans and this was true in 2024 when 46% of such SMEs were confident of success (compared to 32% with plans). Again confidence increased by size of SME from 43% of those with 0 employees to 68% of those with 50-249 employees.

1 in 10

SMEs expected to apply for finance but confidence in success remained lower than previously seen

- Whilst confidence in this group is higher than for those with plans, their confidence has declined somewhat over time, from 59% in 2019 to 46% in 2024, notably for smaller SMEs.

In addition to the 10% planning to apply/renew funding in 2024, 19% of SMEs expected to be a Future would-be seeker of finance and most, 71% expected to be a Future happy non-seeker:

- The proportion of Future would-be seekers increased to 21% in 2020 and is little changed since, with the exception of 2022 (14%). Those more likely to be a FWBS in 2024 include 0 employee SMEs (20% v 6% of those with 50-249 employees) and those in Agriculture (26%).
- Future happy non-seekers have always been the largest group, but at a slightly lower level for 2023 and 2024 due to more Future would-be seekers.
- Analysis by future application plans showed that compared to the 32% of those planning to apply that were confident of success, 35% of Future would-be seekers were confident, and 51% of Future Happy non-seekers (although this is the lowest level of confidence seen amongst this group to date).

The main reason for being a Future would-be seeker remained a reluctance to borrow in the current climate and these SMEs would want to see lower interest rates and a more certain economic outlook before considering changing their minds:

- In 2024, 65% of FWBS were reluctant to borrow in the current climate, including their own performance in that climate.
- In Q3 and Q4 2024, those giving this as a reason for not applying in future were asked what would need to change for them to consider borrowing. From the options available, 32% mentioned if interest rates were lower and this was the top reason for both larger and smaller FWBS.
- 28% mentioned needing a more certain economic outlook and a similar proportion (25%) wanted to see an increase in customer demand and/or more clarity around future government policy. Smaller FWBS were twice as likely as larger ones to say they would want their business to be in a stronger financial position (23% v 12%).
- A reluctance to borrow now remained the most mentioned reason but, at 65% in 2024, this was somewhat lower than typically seen (down 9 points from 74% in 2023). There were increases in mentions of both the process of borrowing (up 7 points to 15%) and a smaller increase in discouragement (up 3 points to 10%) with little change in the mentions of the principle of borrowing (up 1 point to 6%).

Future would-be seekers would need lower interest rates and a more certain economic outlook for them to consider borrowing

12. Awareness of taskforce

and other initiatives.

THIS FINAL SECTION OF THE REPORT looks at awareness amongst SMEs of some of the Business Finance Taskforce commitments, together with other relevant initiatives.

bva Bdrc

12. Awareness of initiatives

KEY FINDINGS

1 in 5 SMEs had heard of the British Business Bank, with 2 in 5 being aware of the Financial Services Compensation Scheme:

- 21% of SMEs in 2024 had any awareness of the British Business Bank. Mid-sized SMEs, those with 1-9 or 10-49 employees, were the most likely to be aware (24-25%) with the smallest (20%) and largest (19%) less so. Starts were the most likely to be aware of the BBB (37%).
- A number of schemes have been developed to support SMEs in their relationships with their bank, including the Financial Services Compensation Scheme which 34% of SMEs have heard of. Awareness is lower for the Standards of Lending Practice (19%) and the SME Finance Charter (16%).
- Amongst those using external finance, 37% had heard of the Financial Services Compensation Scheme, 23% had heard of the Standards of Lending Practice and 19% had heard of the SME Finance Charter. Future would-be seekers were the most aware of the Financial Services Compensation Scheme (42%).
- Awareness of the Standards of Lending increased to 28% of those with 10-49 employees and 36% of those in Transport, while awareness of the SME Finance Charter increased to 22% of those with 10-249 employees and 24% in the Transport sector.
- Exporters were asked if they were aware of the General Export Facility from UK Export Finance and 17% had heard of this facility, slightly higher than the 14% aware in 2023, but still lower than the 24% aware in H2 2022. Awareness was lower for 0 employee exporters (13%) then varied little by size of exporter (22-27% of those with employees) and of the two main international sectors, 10% of exporters in Wholesale/Retail were aware of the General Export Facility and 28% of those in Manufacturing.

21%

of SMEs were aware of the British Business Bank

Awareness of wider forms of funding such as Venture Capital, crowd funding and peer to peer lending has increased over time, but usage of the latter forms of finance remained very limited:

- Two thirds (65%) of SMEs excluding PNBs were aware of any of a range of forms of finance; Venture Capital (56%), Equity crowd funding platforms (53%), Peer to peer lending platforms (44%) and/or Business Angels (38%).
- Overall awareness varied little by size of SME, with the slight exception of those with 10-49 employees (75% aware of any v 70% overall). Since Q4 2018, awareness of any of these forms of funding has increased from around a half (53% in Q4 2018) to two thirds (65% in Q4 2022 and 2023) to 70% in Q4 2024.
- 60% of SMEs excluding PNBs were aware of 'crowd funding', but only 1% had ever used it. 1 in 10 would consider applying future, but 46% would not consider applying at all. 20% of those aware would consider using it, higher amongst smaller SMEs than larger ones.

60%
of SMEs (ex PNBs) had heard of crowd funding but use remains very limited